

PENCIL FOUNDATION

UNIFORM GUIDANCE
COMPLIANCE REPORTS

JUNE 30, 2023

PENCIL FOUNDATION

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INDEPENDENT AUDITOR’S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
PENCIL Foundation
Nashville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of PENCIL Foundation (“PENCIL”) which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 25, 2023.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered PENCIL’s internal control over financial reporting (“internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PENCIL’s internal control. Accordingly, we do not express an opinion on the effectiveness of PENCIL’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether PENCIL's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kraft+CPAs PLLC

Nashville, Tennessee
October 25, 2023

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
PENCIL Foundation
Nashville, Tennessee

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

OPINION ON EACH MAJOR FEDERAL PROGRAM

We have audited PENCIL Foundation’s (“PENCIL”) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of PENCIL’s major federal programs for the year ended June 30, 2023. PENCIL’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, PENCIL complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

BASIS FOR OPINION ON EACH MAJOR FEDERAL PROGRAM

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (“GAAS”); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (“*Government Auditing Standards*”); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of PENCIL and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of PENCIL’s compliance with the compliance requirements referred to above.

RESPONSIBILITIES OF MANAGEMENT FOR COMPLIANCE

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to PENCIL's federal programs.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF COMPLIANCE

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on PENCIL's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about PENCIL's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding PENCIL's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of PENCIL's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of PENCIL's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a material weakness.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on PENCIL's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. PENCIL's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY UNIFORM GUIDANCE AND STATE OF TENNESSEE AUDIT MANUAL

We have audited the financial statements of PENCIL Foundation as of and for the year ended June 30, 2023, and have issued our report thereon dated October 25, 2023, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and the *Audit Manual* issued by the Comptroller of the Treasury of the State of Tennessee and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Kraft+CPAs PLLC

Nashville, Tennessee
October 25, 2023

PENCIL FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2023

GRANT DESCRIPTION	FEDERAL ALN#	GRANTOR'S NUMBER	GRANT PERIOD	ACCRUED (DEFERRED) REVENUE	7/1/22 - 6/30/23		ACCRUED (DEFERRED) REVENUE
				7/1/2022	RECEIPTS	EXPENDITURES	6/30/2023
U.S DEPARTMENT OF EDUCATION							
Passed through State of Tennessee, Department of Education							
COVID-19 Education Stabilization Fund, Discretionary Grants: Rethink K-12 Education Models Grants	*COVID-19, 84.425B	71783	8/11/22 - 5/31/24	\$ -	\$ 473,292	\$ 1,914,287	\$ 1,440,995
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ -	\$ 473,292	\$ 1,914,287	\$ 1,440,995

* Audited as a major program under Title 2 U.S. Code of Federal Regulation Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

See Notes to Schedules of Expenditures of Federal Awards on page 8.

PENCIL FOUNDATION

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2023

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedules of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of PENCIL and is presented on the accrual basis of accounting. The information in the Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and the *Audit Manual* issued by the Comptroller of the Treasury of the State of Tennessee. Because the Schedule presents only a selected portion of the operations of PENCIL, it is not intended to and does not present the financial position, changes in net assets, or cash flows of PENCIL.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. PENCIL has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance, however, no indirect costs have been charged to PENCIL's grants.

NOTE 3 - SUBRECIPIENTS

PENCIL passed through \$1,062,467 of federal awards to subrecipients.

PENCIL FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2023

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified? _____ yes x none reported

Noncompliance material to financial statements noted?

_____ yes x no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? x yes _____ no
- Significant deficiency(ies) identified? _____ yes x none reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)?

 x yes _____ no

Identification of major programs:

Assistance Listing Number(s) *Name of Federal Program or Cluster*

84.425B COVID-19 Education Stabilization Fund, Discretionary
Grants: Rethink K-12 Education Models Grants

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

_____ yes x no

PENCIL FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2023

Section II - Financial Statement Findings

None reported.

Section III - Findings and Questioned Costs for Federal Awards

2023-001 Subrecipient Monitoring

Federal Program Information

Funding Agency: U.S. Department of Education
Federal ALN: 84.425B COVID-19 Coronavirus Education Stabilization Fund,
Discretionary Grants: Rethink K-12 Education Models Grants
Pass Through Agency: State of Tennessee, Department of Education

Criteria

As required by the Uniform Guidance, non-federal entities are required to monitor the use of funds provided to subrecipients.

Condition

PENCIL did not have a written agreement with the subrecipient setting forth the terms of the arrangement and required use of funds, nor did PENCIL produce evidence of subrecipient monitoring of the appropriate use of funds by the subrecipient.

Cause

PENCIL had not received federal funding previously and was not aware of the subrecipient monitoring requirements of the Uniform Guidance.

Effect

Funds provided to subrecipients may have been used inappropriately or not in furtherance of the program objectives.

Auditor's Recommendations

PENCIL should execute a written agreement with the subrecipient that outlines the responsibilities under the grant agreement that are passed through. PENCIL should also establish monitoring policies to ensure that the subrecipient is using the funds in accordance with the agreement. PENCIL should then conduct the required procedures to monitor the use of funds, check status of programs and obtain regular updates sufficient to satisfy themselves regarding the appropriate use of funds in accordance with the requirements of the federal award and any related contracts.

PENCIL FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2023

Section III - Findings and Questioned Costs for Federal Awards (Continued)

2023-001 Subrecipient Monitoring (Continued)

Management Response

Management agrees with the auditor's recommendation. PENCIL should communicate the compliance requirements for staff involved in the distribution of funds to subrecipients. The staff should conduct the required procedures to monitor the use of funds, check status of programs and obtain regular updates sufficient to satisfy themselves regarding the appropriate use of funds in accordance with the requirements of the federal award and any related contracts.

Summary Schedule of Prior Audit Findings

None reported.